

Message Text

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SUBJECT: SITUATION REPORT, DECEMBER 23

REF: (A) STATE 267168; (B) LONDON 20611

1. FOREIGN EXCHANGE AND FINANCE: THE POUND TRADED IN
A VERY QUIET MARKET THROUGH MOST OF WEDNESDAY RISING IN
THE AFTERNOON TO CLOSE AT \$1.6860, A GAIN OF 0.55 CENTS
ON THE DAY. THE TRADE-WEIGHTED DEPRECIATION NARROWED
SLIGHTLY TO 44.6 FROM 44.7 AT TUESDAY'S CLOSE. THE
LATE IMPROVEMENT IN STERLING WAS AIDED BY THE EXTREMELY
LARGE INCREASE IN OVERNIGHT INTEREST RATES ON
WEDNESDAY.

THE BOOM IN GILT SALES WAS TEMPERED WEDNESDAY
AFTERNOON AS THE GOVERNMENT ANNOUNCED YET ANOTHER GILT
ISSUE, THE 15-1/4 PERCENT 1996A. 750 MILLION POUNDS OF
THE 1996A WILL BE ISSUED, PRICED AT 99, IMPLYING A
YIELD TO REDEMPTION OF 15.42 PERCENT. THE ANNOUNCEMENT
OF THE ISSUE BROKE THE PRICE INCREASES OF LONG-DATED
GILTS FROM 3/4 TO 1/4 ON THE DAY. SHORT DATED GILTS
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HOWEVER CONTINUED TO SELL STRONGLY WITH CONSIDERABLE
PURCHASES OF THE SHORT TAP STOCK, THE EXCHEQUER 13
PERCENT 1980.

ENORMOUS PRESSURE WAS FELT IN LATE WEDNESDAY'S
MONEY MARKET AS THE OVERNIGHT INTERBANK STERLING RATE

TOUCHED 500 PERCENT AT TIMES. THE SETTLEMENT OF STRONG GILT SALES THIS WEEK, AND A NET TAKEUP OF TREASURY BILLS ADDED TO THE NEED FOR CASH TO REPAY YESTERDAY'S LARGE OFFICIAL ADVANCE. THE MONETARY AUTHORITIES GAVE LARGE ASSISTANCE TO THE MARKET, BUT THE FINANCIAL TIMES (FT) SUGGESTS THAT THE BANK WAS RESTRAINED IN ITS SUPPORT IN ORDER TO SIGNAL AGAIN THAT IT WOULD FIND A DECREASE OF OVER 1/4 PERCENT IN THE MINIMUM LENDING RATE THIS FRIDAY REPUGNANT. THURSDAY MORNING SAW CONSIDERABLY LOWER OVER NIGHT INTEREST RATES BUT THEY STILL STOOD ABOVE 20 PERCENT.

THE EQUITIES MARKET CONTINUED TO ADVANCE ON WEDNESDAY AS THE FT INDEX OF 30 ORDINARY INDUSTRIALS INCREASED 6.7 POINTS TO 344.5.

2. THE BRITISH GOVERNMENT AND FINANCIAL INSTITUTIONS ARE GOING INTO THEIR WINTER HOLIDAY HIBERNATION, AND THE ONLY WORKING DAYS FOR THE EMBASSY DURING THE PERIOD TO JANUARY 4 ARE DECEMBER 29 AND 30. FURTHERMORE, THE BRITISH ECONOMY APPEARS TO BE IN A SMOOTHER OR AT LEAST QUIET PATCH. THEREFORE, UNLESS THERE ARE UNEXPECTED DEVELOPMENTS, WE DO NOT PLAN TO SEND ANOTHER SITREP UNTIL JANUARY 4. WE WOULD, IN FACT, APPRECIATE BEING ADVISED BEFORE THAT DATE WHETHER THE SERIES NEED BE RESUMED. SPIERS

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